

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 63 – SB 584

March 28, 2017

SUMMARY OF ORIGINAL BILL: Changes, from February 15 of each year to the second Tuesday in January of each year, the date by which the Commissioner of the Department of Education shall submit an annual report on conflict resolution programs to the Governor, the Senate Education Committee, and the House Education, Administration, and Planning Committee

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (005442): Deletes all language after the enacting clause. Utilizes the state board definition of “disabilities” for the purpose of determining eligibility for an Individualized Education Account (IEA). Adds “developmental delay” and “multiple disabilities” to the list of qualifying IEA disabilities. Requires qualifying individualized education programs (IEPs) to meet certain standards.

Requires parents whose children participate in the IEA program to provide an education in English language arts. Requires tutoring services paid for through the IEA program to meet the requirements established by the Department of Education (DOE) and the State Board of Education (SBE). Requires online educational learning programs or courses paid for through the IEA program to meet SBE and DOE requirements. Requires therapy paid for through the IEA program to meet SBE and DOE requirements.

Eliminates the role of the DOE in creating an application and approval process for providers to become IEA participating providers. Limits the review process of the IEA program to either random, quarterly, or annual review. Authorizes the DOE to deduct six percent from BEP funds transferred to IEAs for administering the program.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

**Increase State Revenue - \$8,300/FY17-18/Department of Education
\$64,300/FY18-19/Department of Education
\$67,200/FY19-20/Department of Education
\$70,200/FY20-21/Department of Education
Exceeds \$70,200/FY21-22 and Subsequent Years/
Department of Education**

Increase State Expenditures – \$8,700/FY17-18 and Subsequent Years

Other Fiscal Impact – For local education agencies (LEAs) that have participating students, the shift of state and local BEP funding from these LEAs to the non-public participating schools is estimated as follows: \$865,200 in FY18-19; \$907,300 in FY19-20; \$951,000 in FY20-21; and an amount exceeding \$951,000 in FY21-22 and subsequent years.

In addition, there will be a decrease in state and local BEP funds shifting to non-public participating schools in FY17-18 of \$8,300 due to the change in the percentage of state and local BEP funds which can be retained by the Department for administrative purposes.

Assumptions for the bill as amended:

- Based on information provided by the DOE, there will be 11,035 students with Developmental Delay and 2,085 students with Multiple Disabilities, for a total of 13,120 additional eligible IEA students.
- There will be an increase in state expenditures to mail out IEA brochures to contact the 13,120 newly-eligible students at \$0.66 per brochure; the increase in state expenditures from printing and mailing costs is estimated to be \$8,659 (\$0.66 x 13,120 students) in FY17-18.
- Based on information from the DOE, the IEA program currently has a total of 35 participants with an additional 25 participants approved for the 2017-18 school year for a total of 60 (35 + 25) participants.
- The application window for the program closes on April 3, 2017; therefore, it is assumed that the any newly-participating applicant will begin participating in FY18-19.
- A one percent participation rate in years after FY17-18 is assumed with 2.5 percent growth in the number of participants each year. The expected numbers of new participants are estimated in the table below

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Add. Participants	131	134	137	140	144

- The current state and local BEP amount is assumed to be \$6,922 in FY17-18; with 2.5 percent growth in state and local BEP payments assumed, the estimated state and local BEP amounts in out years are estimated in the table below.

2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
\$6,922	\$7,095	\$7,272	\$7,454	\$7,640	\$7,831

- The gross shifts in BEP funds from state and local government to private entities are estimated in the table below. The following numbers below represent the amounts of state and local BEP funding that would shift from LEAs to non-public participating schools prior to any funds being retained by the DOE for administrative purposes.

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Add. Gross Shift	\$929,452	\$974,448	\$1,021,198	\$1,069,600	\$1,127,664

- Under the provisions of the legislation, the DOE is authorized to retain six percent of BEP funding that would otherwise shift from LEAs to non-public participating schools for administrative purposes, rather than four percent of such BEP funds.
- Pursuant to Tenn. Code Annotated § 49-10-1405(b), the DOE is currently authorized to retain a four percent administrative fee.
- This will result in an increase in state revenue to the DOE estimated to be \$8,306 (\$6,922 x 60 students x 2.0% fee increase) in FY17-18 based on the 60 students anticipated for enrollment in FY17-18.
- Further increases in state revenue to the DOE are estimated below in the table; the table accounts for the change over time in per pupil expenditures and how this affects state revenue retained by the DOE based on the initial 60 students.

Year	2017-18	2018-19	2019-20	2020-21
PPE	\$6,922	\$7,095	\$7,272	\$7,454
2% change	\$8,306	\$8,514	\$8,726	\$8,945

- The increase in state revenue to the DOE for FY18-19 and subsequent years is determined by calculating six percent of the state and local BEP funds otherwise shifting from LEAs to non-public participating entities and adding the additional revenue from table above for the relevant year.
- For example, in FY18-19, the increase in state revenue to the DOE for administrative purposes is estimated to be \$64,281 [\$8,514 + (131 participating students x \$7,095 x 6.0%)].
- The increase in state revenue to the DOE for subsequent years is illustrated in the table below.

Year	2017-18	2018-19	2019-20	2020-21
Δ Revenue	\$8,306	\$64,281	\$67,193	\$70,217

- The net shift in state and local BEP funds is calculated by subtracting the increase state revenue to the DOE from the gross shift in BEP funds listed in the previous table.
- The net shift in state and local BEP funds from LEAs to non-public participating schools is listed in the table below. The following numbers represent the net amounts that will shift from LEAs to the non-public participating schools after the DOE has retained their administration fee of six percent.

Year	2018-19	2019-20	2020-21
ΔNet Shift	\$865,171	\$907,255	\$950,981

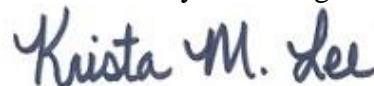
- In FY21-22 and subsequent years, the net shift of state and local BEP funds is estimated to exceed \$950,981.

Assumptions relative to LEA fund retention:

- The BEP maintenance of effort requires that local government continue to fund their LEA at the same level year-to-year unless there is a decrease in enrollment.
- Participating students will continue to be counted in LEA enrollment numbers, and LEAs will be required to continue providing funding based on the enrollment numbers that include participating students.
- A majority of LEAs are currently funding their students above and beyond the BEP local match requirement. This amount varies widely by LEA, but according to DOE, the average amount that LEAs will retain in FY17-18 is \$1,279 per pupil. This amount is estimated to increase at an average growth rate of 2.5 percent annually in each subsequent year.
- Each year, students leave and enter LEAs. As a result, LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population.
- LEAs will be able to use retained funding to offset any increase in local government expenditures or to use at their discretion for some other purpose.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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